DSR STOCK CARD

11/30/2022

LINAMAR (LNR.TO)

Business Model

Linamar Corp is a diversified global manufacturing company of highly engineered products. The Company's Industrial segment operates the Skyjack and MacDon brands, and manufactures products for the Aerial Work Platform and Agricultural industries, respectively. The Mobility segment features vertically integrated operations to combine expertise in light metal casting, forging, machining and assembly of components and systems for electric and traditional vehicle applications. In addition, McLaren Engineering and eLIN Product Solutions Group provide design, development, and testing services for the Mobility segment.

The Company in a Nutshell

- Linamar is often linked to the automotive industry as it represents 74% of its transportation segment.
- LNR is well ranked among automotive suppliers in North America.
- LNR expect sales of light vehicles to recover to 2019 levels after 2023.

Investment Thesis

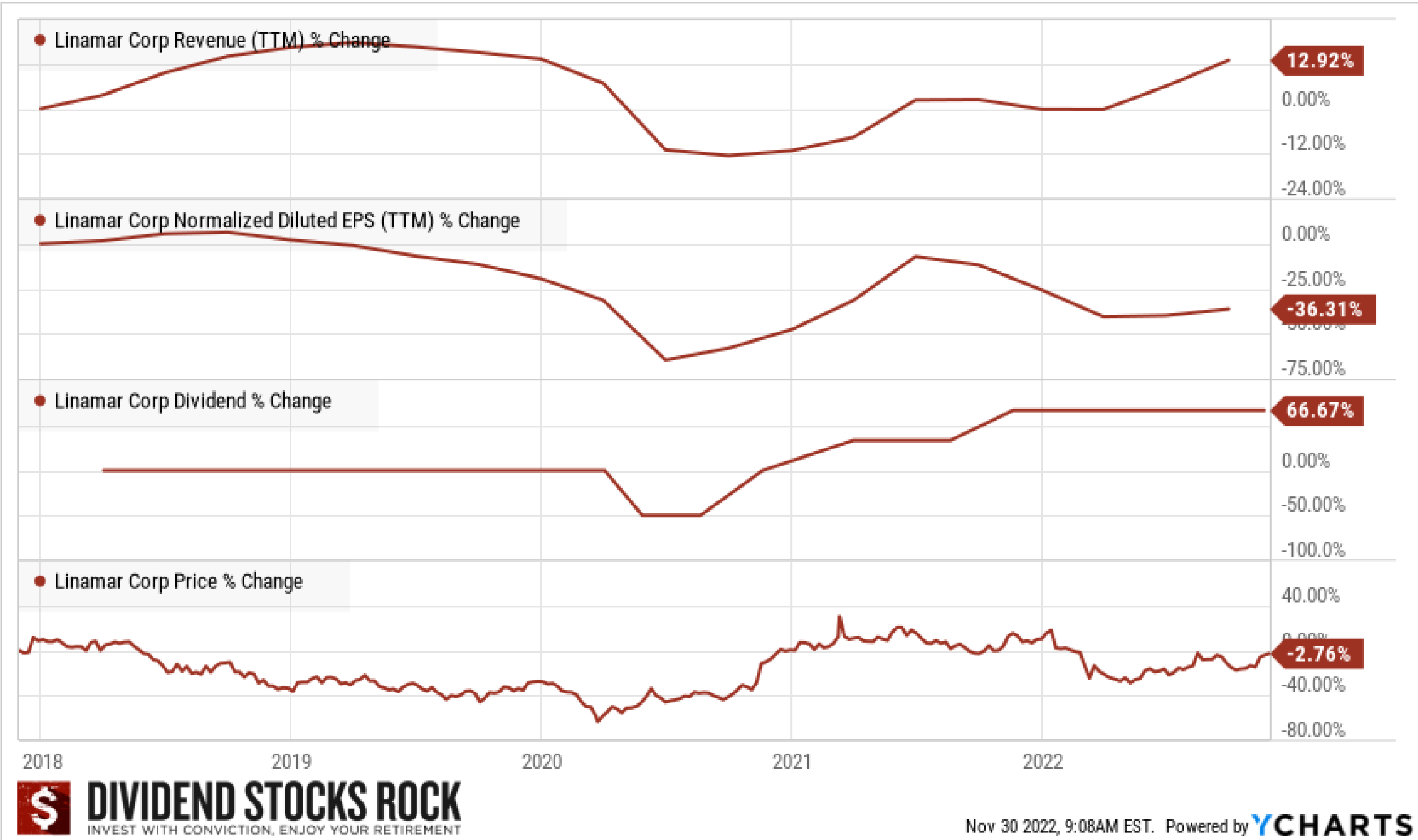
With about three quarters of its sales coming from its transportation segment (69.8% from automotive), Linamar is clearly a play on the automotive industry. The family operated company has grown its business successfully through new customer wins and acquisitions. While the automotive sector is known to be cyclical, manufacturers offer additional stability. Several parts are custom made and switching costs for changing suppliers is high for automakers. This provides a great competitive advantage for Linamar. The company is diversifying outside the automotive industry with 24% of its revenue now coming from the industrial segment. Management seemed to be quite optimistic with a generous dividend increase declared in late 2021, but nothing came in 2022.

VALUATION

Dividend growth rate 1-10 years: 2%

Terminal dividend growth rate: 2%

	Discount Rate (Horizontal)		
Margin of Safety	**9.00%**	**10.00%**	**11.00%**
20% Premium	$25.20	$20.16	$16.80
10% Premium	$23.10	$18.48	$15.40
Intrinsic Value	$21.00	**$16.80**	$14.00
10% Discount	$18.90	$15.12	$12.60
20% Discount	$16.80	$13.44	$11.20



Potential Risks

For a Canadian company, earning 46% of its revenue in its local currency could go either way. This is how LNR could experience great years when the Canadian dollar drops. If the oil price continues to rise, chances are the Loonie will have negative affects on LNR's revenue. The higher cost of raw materials also affects LNR's margins. The pandemic had caused significant slowing for all the company's business lines, forcing it to cut its CAPEX and dividend payment to preserve cash. Expect a long two years ahead for LNR as sales of light vehicles will not rebound to 2019 levels before 2023. However, the market doesn't seem to mind very much as the stock price has more than recovered from the pandemic crash.

Dividend Growth Perspective

Linamar cut its dividend in 2009 during the financial crisis. History repeated itself as the company slashed its dividend by 50% over the spring of 2020 as management sought greater financial flexibility. Surprisingly enough, demand for its products rebounded quickly and LNR reinstated its dividend payment in full during the fall of 2020. LNR just increased its dividend again in late 2021 with a 25% increase! However, management neglected to increase the dividend in 2022. We shouldn't pay attention to the dividend discount model (DDM) calculations as LNR exhibits a very low yield (around 1%) and poor dividend growth upside.